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'88 OPE outlook • New waves in irrigation

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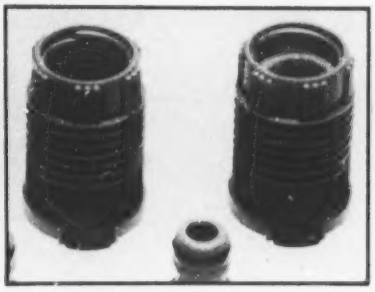

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Cover photo by Kevin Anderson.

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OPE outlook: slight decline in '88

Despite the forecast of some declining sales for the year ahead, outdoor power equipment industry officials are projecting mostly sunny skies for 1988.

The crystal ball used by manufacturers of outdoor power equipment shows an overall bright outlook for 1988 even though there are clouds on the horizon for some product categories. The consensus of those participating in the Outdoor Power Equipment Institute forecasting project, completed early this year, was that in 1988 industry sales will decline some from the high 1987 levels. "Slight economic shifts are predicted for 1988 that we feel will result in a minor industry sales decline from the high 1987 levels," the report said.

New housing starts, considered a key impetus to lawn and garden equipment sales, are predicted to decline 2 percent by the manufacturers responding to the survey by OPEI. The summary of the OPEI outlook was prepared by Murray Ohio Manufacturing Co. and was presented to the membership by Thomas Murray Hannon, vice president of business development for that company. The presentation was made at the 35th annual meeting of the OPEI, held in June in Monterey, Calif. Hannon's report said, "As a group, we see the economy picking up with an increase in the rate of growth for GNP and disposable personal income from 1987. Concurrently, we see prices at all levels rising more rapidly than in 1987."

Overall, optimism for the future of the association, as well as for the industry, was expressed by the members attending the annual meeting. (See related story, "Mann heads thriving OPEI," this page.) Other key economic indices factored into the forecast for OPE shipments for the 1988 model year all showed increases. They were the consumer price index, increasing 3.8 percent, and unemployment, increasing at 6.7 percent (the same as the projected rate for unemployment in 1987).

The producers price index, reflecting not only power equipment but all products sold by manufacturers, was projected at a slim 1.8 percent. This index, which shows changes in prices manufacturers will charge their customers, showed a wide variance from the OPEI respondents in the survey, from -2.3 percent to 3.9 percent.

The prime interest rate is projected in 1988 to show an annual average of 8 percent, compared to the projected 7.5 percent this year. "The slight rise in the prime rate is in concert with a decrease in housing starts. Due to the strong connection between lending rates and housing starts, the prime also should be watched closely for its effect on 1988 sales," the manufacturers were advised by the report.

In an analysis of the industry, the report noted that although a year ago the OPE forecast for 1987 called for growth of .2 percent for walk-behinds and 3.6 percent for riders, later projections, made early this year, showed that the original forecast for 1987 models may have been low, with forecasts in April showing an increase of 6.5 percent for walk-behinds and 7.2 percent for riders. Hannon's report at the annual meeting went on to point out that for 1988, a downturn has been forecast for all categories, with the exception of rear-engine riders, which the members forecast will enjoy a slight increase. Mid-season projections were that rear-engine models were growing at twice the rate in 1987 than was forecast originally (3.8 percent compared to 1.9 percent).

Also, the forecast by OPEI members for 1988 rear-engine riding mowers was considerably more bullish than were the projections done in March of this year by Chase Econometrics—332,000 units vs. the Chase projection of 315,000 units for 1988.

A 6 percent decrease is forecast for 1988 in front-engine rider shipments, the first decrease after five years of steady growth in this category. The manufacturers forecast a decline of 3 percent for the 1988 model year for walk-behind

continued...

Munn heads thriving OPEI

John Munn, president of Wheel Horse Products Inc., was elected president of the Outdoor Power Equipment Institute at the organization's annual meeting, June 21-24, in Monterey, Calif. Munn has served as president of Wheel Horse Products since March 1982. Prior to that he was with American Motors Corp. as director of corporate development, director of corporate planning and director of finance. He takes over the presidency of the OPEI from B. Duane Bustle, of Trailmate Inc.

Other officers elected were vice president, Jaico Estrada, chairman of the board and president of Garden Way Inc., Troy, N.Y.; and secretary-treasurer, Jerome M. Stumbras, vice president and general manager of Outdoor Power Equipment Group of Lawn-Boy, a product group of Outboard Marine Corp., Memphis.

At the meeting, OPEI members, already encouraged by the contribution the OPEI-sponsored International Lawn, Garden & Power Equipment Expo is making to the financial strength of the association, heard updates of other initiatives being undertaken: building a headquarters in Alexandria, Va., to be completed and ready for occupancy early next year, and support of legislation in Congress that would allot $13 million each year from the gasoline sales tax to develop grasses that would grow in arid regions. Much of the sales tax comes from gasoline sold for power equipment use on lawns and other turf areas, Dennis Dix, executive vice president and CEO of the OPEI, pointed out.

The members heard details of the OPEI's comprehensive new consumer safety education program, which includes a media tour, OPE presentations at consumer flower and garden shows and a national radio program. Details of a consumer survey, to take place in September, on purchases in six key product categories also were spelled out for the members by Mark Rostvold, director of consumer products, farm equipment and consumer products division, Deere & Co., and John F. Liskey, OPEI's director of statistical and technical services.

For the survey, each evening throughout the year, 700 phone calls will be made to homes asking for details as to place of purchase, purchase price and basic buyer demographics. In reports to members, results will be broken down by county level.

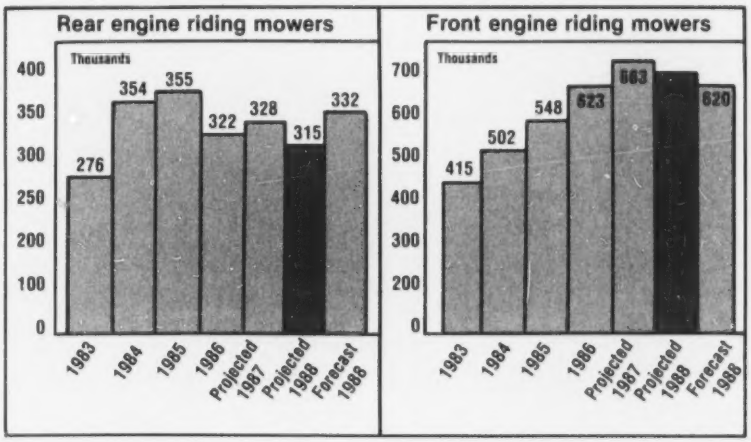
OPE...*continued*

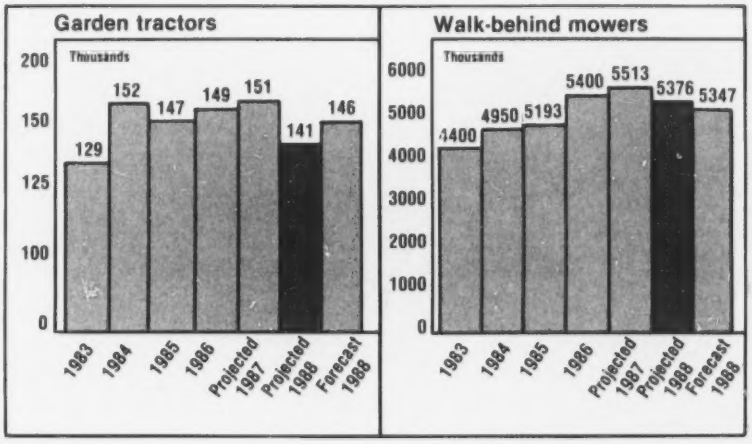
mowers, the industry's product line that affects the most suppliers and retailers. The commentary on the survey questions the accuracy of the 1988 forecast of shipments of walk-behind mowers: "The 1988 forecast could again be affected by the 1987 estimate, which appears low in the face of the industry's current 6.5 percent growth in this category."

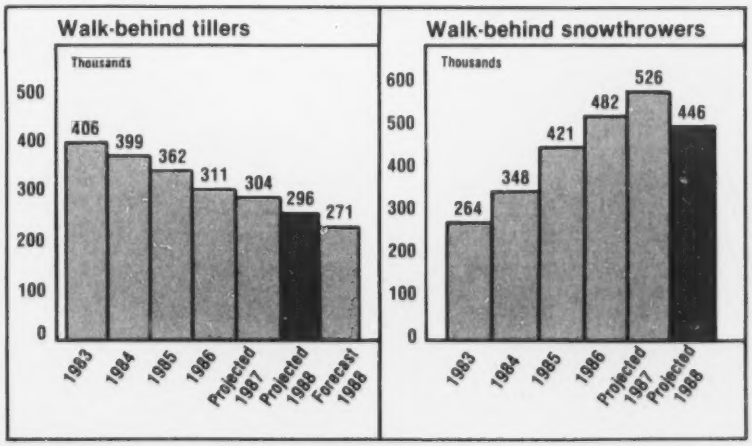
Overall, the outlook was considered to be on the conservative side, with few dramatic changes, except for the projected sharp drop in shipments of snowthrowers, which, though dramatic, was not unexpected by those who track that industry segment closely.

Barely one half of the membership responded to the questionnaire and many of those respondents did not answer all questions, according to an introductory statement by the officers of Murray Mowers, president John L. Duncan and vice president Hannon. The respondents did include the major manufacturers who account for the bulk of production, John Liskey, OPEI's director of statistical and technical services, confirmed. In some cases, wide variances existed as to the outlook. For example, the report said of the members' forecast on snowthrower shipments, "...there is little agreement with a range of 136,000 between the high and low responses. The average of these widely varying forecasts predicts a 15.2 percent decline from the recently announced 1987 figure...." The 1987 model year for walk-behind snowthrowers, which ended Feb. 28, hit a five-year peak, with reported shipments of 526,000 units.

The 1988 forecast for these two other major categories that the manufacturers reported: walk-behind tillers, 271,000 units, down from their projection of 304,000 units for the 1987 model year; and garden tractors, down from a projected 151,000 units for the 1987 model year to 146,000 forecast for shipment in 1988.







Source: OPEI (Chase Econometrics projection for 1988)

Chase forecast

Another view of the industry to help the manufacturers assess the future was provided by Chase Econometrics and was summarized alongside the forecast by the manufacturers. Chase, which has for several years provided economic data services for OPEI members, completed its 1988 projections for the industry in March of this year. OPEI summarized the variances between the two views in this way: "The member forecast agrees directionally with the 1988 Chase forecast, but we view the economy growing slower and prices rising less rapidly."

One interesting observation of the OPEI report also summarized in the outlook had to do with channels of distribution. That was the reversal of a trend that had seen two-step distribution losing out to direct sales by manufacturers to retailers and other market segments. According to the March 1987 study the "wholesaler/jobber" category grew from 23.6 percent of the market in 1986 to 27 percent in 1987.

The report said, however, that there would be little change in 1988 in distribution channels. It noted that export sales were seen as increasing in percentage of OPEI member sales in both 1987 and 1988. **—LGM**

Catching the wave

The number of retailers is increasing who realize that with employee expertise, customer education and proper merchandising DIY watering systems can offer sales success.

For the past few years, sales of automatic underground sprinkler systems have been steadily inproving. Once thought to be a sunbelt-concentrated, contractor-installed market only, the tide toward do-it-yourself (DIY) underground sprinkler systems is flowing across the country.

Like many other items, sales increases in the "professional" market—in this case, contractor-installed systems—often pave the way for DIY consumer sales success stories. For example, Century Rain Aid, the largest distributor of irrigation systems and supplies east of the Mississippi River, is a contractor-oriented distributor. Earlier this year, Ernie Hodas, president of Century Rain Aid, predicted a record year for the industry in 1987.

"In the last five years, with the advent of solid-state controllers, automatic sprinkler systems have practically replaced manual systems," Hodas says.

Hodas' optimism is backed up by numerous other industry studies and trends. Garden America Corp., the largest pure-play U.S. manufacturer of automatic watering systems, is showing above-average growth potential in an expanding $350 million industry. And a recent sampling survey taken by *Lawn & Garden Marketing* reveals that lawn and garden retailers are reporting sales increases of up to 20 percent on irrigation kits for DIYers. Although the market is admittedly weakest in the Northeast, retailers from non-sunbelt areas where the systems are well-promoted and merchandised are still experiencing sales success.

Steve Goodwin is a buyer for Supply One in Rancho Cordova, Calif. Supply One boasts three and "one half" stores in its northern California chain and has been selling DIY underground sprinkler systems for three years. Supply One offers Garden America (Richdel), Rainbird, Toro and Rain Jet systems.

"Our selling season is really only the months of May and June because all of the stores in our market are in snow areas," Goodwin explains. "Yet it is very lucrative; there are lots of sales dollars in it. The mix of our products is probably very similar to Florida, with the exception being that we sell a lot of drain valves to prevent freezing."

Goodwin believes sales success in the systems, despite a short selling season and difficulties with freezing pipes, is just like sales success with any other product. "It's like anything else you want to sell: You need to understand the product and its application, you need to price it right and you need to train your personnel," he says.

Goodwin admits that certain items in an underground sprinkler system, such as PVC pipe, are price-sensitive. He also says many of the product brands have tight profit margins. "But if you price correctly and carry a full product line you can still make a nice gross," he emphasizes.

Goodwin also says that what small problems his stores have had with the products themselves the manufacturers have been "quick to fix."

"An average system here runs around $500," he points out. "I think that growth in the future will be even more; something will come along to revolutionize the industry. Before PVC pipe was available, for example, only the very rich could afford an underground system. The introduction of PVC pipe brings it down into an affordable range for the average homeowner."

He adds, "It's one of the top ten DIY projects in our stores. In season, that aisle is the busiest aisle in the store."

Another retailer experiencing success with the systems is Ted Teagle, owner

continued...

Photo by Glen Hensley

Timers and fittings get prominent display at Chic Do-It, which sells its irrigation equipment through the plumbing department.

Wave...*continued*

of Spring Valley Ace Hardware in Columbia, S.C. Teagle has been selling the systems (Rainbird and Toro) since he opened his doors four years ago. Unlike most retailers, who continue to market the systems in the plumbing department, Teagle displays sprinklers and timers in lawn and garden; only pipe is in the plumbing department. He is considering consolidation of everything into one area by way of an addition to his store.

"I don't think they would even look for it in the plumbing department," Teagle believes. "We have it in lawn and garden, right there with everything else. For a residential market, fertilizers etc., go right along with watering, and I think the systems belong there with them."

Teagle should know; he says 17 percent of his total annual volume is made up of underground sprinkler sales, and that figure rises to 25 percent in his prime selling months of March-August.

"There is a lot of residential growth in this area, and our lawn and garden department business is up 30 percent over last year," he explains. "I think it's an excellent market. If you are a lawn and garden retailer and not in it, you need to be."

Teagle adds that a retailer needs to look at the area economy when deciding to market the systems, noting that new housing starts and residential growth are keys to success, along with training of store personnel, filling shelves with merchandise and service.

"First you need to educate personnel to sell the systems so they can help the customer," he explains. "It is not, as some people think, just a one-time purchase. Sometimes people run over the (sprinkler) heads with lawnmowers or cars so replacement parts get return business. We stockpile (these replacement parts) and find that filling the shelves sells them."

Teagle reports a high markup margin in pipe and a medium one in sprinklers and accessories, but he still says there's "good money" in offering the systems. Like Goodwin, he has had few problems with the units themselves. He says in his area, the biggest problem is that sand will sometimes get into sprinkler heads and clog them, and low water pressure in some areas also has created a few difficulties.

Another retailer experiencing success with underground sprinklers merchandised in the lawn and garden division is Scotty's, a chain of 145 stores in Florida and Georgia. According to Richard Dodd, a buyer at the company's corporate headquarters in Winter Haven, Fla., the lawn and garden department and plumbing departments are right next to each other in Scotty's stores. In his sunbelt market area, he says stocking the systems is essential to having a well-rounded lawn and garden department. But Dodd echoes other dealers: trained personnel and customer education are vital to sales success.

"The systems range in cost from $900 to $1500 on the average. But the cost is not the biggest obstacle; people are afraid they can't do it," he explains. "An oscillating sprinkler tied to the end of a hose is easy, you know. So you have to educate the customer. How-to booklets, like those supplied by Rainbird, are very important. It convinces the customer this is something they can really do."

Sara Romspert is the marketing manager for Rainbird Sprinkler Mfg. Corp. in Glendora, Calif. Although dealers like Teagle best illustrate the success of lawn and garden marketing of underground irrigation systems, Romspert has some qualms.

"I have mixed feelings about it because I am not sure that lawn and garden people have an understanding of the component business," she explains. "And some of the fittings are truly plumbing fittings. The key is how to best serve the customer. How do you make it as easy as possible for the consumer to get all the components for his system? You could double inventory to consolidate it in both lawn and garden and plumbing, or you could do a POP system in lawn and garden that points to the plumbing department."

Aside from merchandising the systems, Romspert says having employees "who can take the scariness away" is the essential ingredient in marketing the systems. "Our field people spend a lot of time training store personnel and conducting consumer clinics," she says. "We try to take the mystery out of it. We emphasize that planning is the key to a successful consumer DIY system; the rest is just sweat."

Peggy McMillan, sales and marketing coordinator for Rain Jet in Laguna Niguel, Calif., says that right now Rain Jet is primarily sold in plumbing departments. "To market it successfully in lawn and garden departments, you need a lot of point-of-sale information," she believes. "Brochures, headers....and the key selling guide is the how-to-install brochures."

McMillan notes that one of Rain Jet's biggest markets is Wyoming, simply because retailers there promote the system. "Another big market is Washington state, and it rains there all the time," she points out. "But that doesn't mean lawns are watered adequately."

McMillan says Rain Jet systems are designed for the DIY market and adds

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Retailers who plan to increase dollars and space in DIY irrigation*

% Total	% Northeast Central	% North	% South	% West
27.7	42.8	16	22.6	29.4

**Based on figures from November 1986 LGM survey*

Wave...*continued*

that retailers who advertise it for what it is, as well as employing knowledgeable store personnel will succeed.

"We hold seminars for store personnel and put on 'Rain Jet Days' where a rep will come in and do a program," she says. "The customers bring in their lot plot plans, and we design a system for them. We also offer a videotape that tells what we are and why we are different from other systems. And we have just started advertising in consumer publications to build customer demand."

"Pop-up" sprinklers get mass treatment in this display at Chic Do-It. Photo by Glen Hensley

Hudson England is vice president of merchandising for Anderson Lumber in Ogden, Utah, a chain of 23 stores in Utah, Idaho and Wyoming. Anderson has sold the systems store-wide for the last four years in his plumbing department, keeping the lawn and garden division as close to plumbing as possible.

"A lot of customers are seeing it as relatively simple to install, and the videotapes help a lot," England explains. "I think you have to have the product to have a complete lawn and garden department. New construction is probably half of our business, and I feel the industry will continue to grow."

England says the system itself is labor-intensive, and a solution to tying up too much store personnel time is to provide as much information as possible for customers. "We try to get customers to do as much of the work as possible," he explains.

Tim Reusch is store manager for Chic Do-It in St. Peters, Mo., one of five stores in the St. Louis-based chain. Reusch says Chic Do-It only started "seriously selling" the DIY irrigation systems in the spring of 1986 (Richdel-Garden America brand). In May 1987, his store did $10,000 in sales of the systems.

"We're still new at this, but it shows where we are," he points out. "Our profit margin is in the low 40s, and an average systems sale is about $900."

Reusch says that while some components of the systems may be price sensitive, "Basically the customer is looking for someone who knows what they are talking about, personnel who can sell with confidence. The consumer then can know if he has a problem, he's dealing with someone who can accommodate him. We are a service organization, and we do whatever we need to do and do it willingly."

Reusch says the systems are displayed in the plumbing section of his store and calls it "logical" since his plumbing department manager also happens to be the store expert in sprinkler installation. Reusch also has an opinion as to why the systems are doing well for the DIY market.

"These sprinkler heads are far more efficient and do far better (than conventional sprinklers), but I am not sure that is the motivation for buying them. I think the motive is keeping up with the Joneses," he admits, "and convenience. It is a job to water by hand, dragging hoses, moving sprinklers and so forth."

Ken's Hardware in Diamond Bar, Calif., has been marketing the systems for eight years now. They stress quality and service, trying not to compete with mass merchandisers on the basis of price, selling Toro systems. They loan out an installation videotape to customers, and they design systems from homeowners' plot plans. If a customer decides not to buy the system, he pays $25 for the design prepared for him by the store.

According to Mark Faris at Toro Irrigation, Riverside, Calif., the company is taking a much more aggressive marketing approach. "We're setting up a network of distributors and are asking them to service dealers, and we're also going after chains like Ace and True Value," he says. "We're trying to change the mentality about how these products go to market. We want to give them a warm and fuzzy feeling when they approach these products, more like a Radio Shack approach than a hardware approach."

Also, according to Faris, each year half a million underground sprinkler systems are installed—more than half of those are done by DIYers.

The conclusions? DIY underground irrigation systems are on the move, and savvy lawn and garden marketers can profit from their growing popularity. Trickle-down sales from the "pro" market (for example, golfers who see it on the golf course all the time), increased advertising that creates consumer awareness and demand and customers who now realize they can install the systems all point to increasing sales. The best market seems to be in those areas where growth is on the upswing, and where busy two-career families want to opt for the convenience of an underground system. Retailers willing to make the investment in terms of training personnel, stocking adequate inventory and merchandising properly can reap the benefits of an expanding industry.

"A lot of the market depends on how sophisticated the contractor-installed business is," says Romspert of Rainbird. "They help create awareness in lower-demand areas. And in the non-sunbelt areas where they are just starting to take off, the homeowner has to realize the need, so you have to create the demand for the systems."

But it is perhaps Reusch of Chic Do-It who sums up the swelling trend best for lawn and garden retailers: "Sprinkler systems are today's business. Many years ago, few people had underground systems. Today they are affordable, realistic and desirable. I see nothing but growth for the future." **—LGM**